Illinois Energy Solutions

Response of the Coalition of Energy Suppliers
To the June 29, 2006 Questions Posed to Interested Parties
By ICC Chairman Charles Box

I. Introduction

In its June 29, 2006 letter, the Illinois Commerce Commission ("Commission") seeks comments from interested parties on the "challenge of finding ways to help retail electric customers cope with higher bills in the short-term and to create a more efficient system in the long-run."[1] Generally speaking, the Coalition of Energy Suppliers ("Coalition") believes that the challenges identified by the Commission will best be met by the Commission's ongoing and active promotion of competitive retail electric markets.

The Coalition currently is comprised of Direct Energy Services, LLC, MidAmerican Energy Company, Peoples Energy Services Corporation, and U.S. Energy Savings Corp. The members of the Coalition have combined experience providing competitive retail electric and gas service within Illinois and throughout North America and Europe. The Coalition therefore actively supports the mandate of the General Assembly to the Commission to promote the development of competitive electric markets in Illinois.[2] The General Assembly noted that:

> Competition in the electric services market may create opportunities for new products and services for customers and lower costs for users of electricity. Long-standing regulatory relationships need to be altered to accommodate the competition that could fundamentally alter the structure of the electric services market.
> . . .
> All consumers must benefit in an equitable and timely fashion from the lower costs for electricity that result from retail and wholesale competition and receive sufficient information to make informed choices among suppliers and services.

(220 ILCS 5/16-101A(b), (e).)

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[1] Ill. Commerce Comm'n, *Illinois Energy Solutions, Questions for Interested Parties*, June 29, 2006, Memorandum at 2.

[2] Along with other interested parties, the Coalition has identified in the Commission's Retail Choice Initiative, a number of opportunities the Commission could take, both in the short term and in the long term, to promote retail electric competition. *See* 220 ILCS 5/16-117.

In another ongoing Commission-initiated process-- the Choice Initiative -- the Coalition has proffered a working definition of retail electric competition. In addition, the workshop has developed a list of opportunities the Commission could pursue to promote retail electric competition. The list contains a number of short-term opportunities that would go a long way in encouraging competitive suppliers to enter the Illinois market to serve residential customers. As with the Choice Initiative, the Coalition welcomes the opportunity to work with Commissioners, Staff, customers, utilities, other retail electric suppliers ("RESs"), and other market participants to fulfill the General Assembly's direction to the Commission to promote the development of competitive electric markets in Illinois.[3]

The Coalition's responses to the Commission's questions are set forth below.[4] The Coalition's responses are designed to foster discussion and the Coalition expressly reserves the right to take additional or different positions, both in the context of the Commission's Illinois Energy Solutions initiative , and in any pending or subsequent docketed proceedings or workshops. Indeed, the Coalition anticipates that its members, along with others who participate in this dialogue, will learn from this process, and that parties will strive to reach common ground in order to help the Commission foster consumer education and protection measures in parallel with the development of competitive electric markets in Illinois.

The successful experience of Illinois at the beginning of the transition period has shown that **all** consumers will be better served if action is taken now to educate customers about upcoming market changes rather than wait until after-the-fact. The Coalition appreciates and supports the Commission's investigation and foresight into ways to educate consumers, and its continued recognition that encouraging marketplace enhancements will play critical roles in moderating electricity prices in the longer term.

Allowing customers to see accurate market prices, reflecting both surplus and scarcity, will encourage greater demand response and will, in turn, allow consumers and other market participants to see the same price signals and respond accordingly. Choosing the level of price risk to accept is something customers must do daily in even the most basic economic decisions. Retail competition enhances the variety of alternatives open to customers. Multiple suppliers offering consumers myriad competitive choices would make consumers better off by allowing them to choose the product that best fits their needs and by bolstering overall system reliability, as price would provide incentives to reduce demand and increase output in the right places and at the right time.

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[3] Along with other interested parties, the Coalition has identified in the Commission's Retail Choice Initiative, a number of opportunities the Commission could take, both in the short term and in the long term, to promote retail electric competition. (*See* 220 ILCS 5/16-117.)

[4] The positions set out herein represent the positions of the Coalition as a group, but do not necessarily represent the positions of individual Coalition member companies.

Consumers should be made aware that in a competitive retail electric market many RESs will offer products with attributes that consumers want to purchase. For instance, if consumers are highly concerned about price volatility, they could choose fixed-priced contracts that insure against price risk. If consumers are interested in green power, they could purchase renewable products. Consumers who may be interested in keeping their electricity bills equal over time could choose to pay their accounts through levelized billing. Some consumers may even choose to face variable prices, with higher prices during peak hours and the lowest possible price during off peak hours; this choice is likely to reduce consumption in those peak hours with higher prices. The effects of shifting demand away from peak would reduce their use in those hours, and the overall effect on prices in *all* hours could lead to lower electricity bills for all customers, including those who do not shift their usage.

II. Coalition Responses to the Questions Presented

Short-Term Solutions

The Commission is seeking ways to immediately help customers cope with rising electric costs. These should be solutions that can be initiated quickly — within a six-month time frame — and have a noticeable impact in lowering energy bills.

Consumer Education

1. What types of programs could be introduced in Illinois to provide consumers the tools and information they need to better monitor, manage and control their electricity consumption and thus their energy bills? How should the success of these programs be measured?

Answer

Providing consumers with better price signals (for example via advanced metering and default service rate design that more accurately reflects the actual cost of the power being consumed) would provide consumers with the tools and information they need to better monitor, manage and control their electricity consumption and thus their energy bills.

Efforts should begin now to send customers of all sizes the price signals necessary to assist them in evaluating the market costs of the electricity they purchase and to allow them to make purchasing decisions based on such information. As the Commission is aware, the price of electricity can vary significantly throughout the daytime hours, especially during periods of high demand.

Historically, consumers have been insulated from these price swings both due to the rate freeze and the fact they generally pay flat rates for electricity. Because these rates do not vary as the underlying price of electricity changes, consumers do not see the price of the

electricity that they actually use. This lack of a transparent price signal causes customers to over-consume when electricity is scarce and prices are high, and under-consume when electricity is abundant, and prices are low. Such behavior strains the electricity grid and results in increased costs for consumers.

Price signals allow customers the opportunity to reduce their electricity expenditures by responding to prices as they occur. Ideally customers receive price signals regarding the price of electricity in the market and can adjust their electricity usage accordingly. In addition to reducing electricity bills for individual consumers, more market-reflective price signals benefit the entire system by reducing demand and decreasing the strain placed on the electricity grid during periods of high demand.

Accordingly, the most important tool for consumers to have in managing their electricity consumption is real price signals that are linked to short-term changes in the wholesale energy market.

The Federal Energy Policy Act recently mandated that the states look at smart metering technologies and consider ways to help consumers use electricity more efficiently. Broadening the availability of this technology to more mass market consumers would encourage other such programs and would encourage suppliers that might wish to sell products to consumers such that consumers could take advantage of hourly changes in energy prices to do so.

With respect to more market-reflective energy pricing, a May 2006 Report for the Edison Electric Institute stated that:

> Customers make usage decisions with high regard to the prices they face . . . customers do have both short-and long-term choices to make regarding the actual consumption of electricity. In the short-term, the choices for a residential customer may boil down to a decision to always turn the lights off when they leave the house. But, over longer time spans, many additional choices are available. In response to a long-term price increase in the cost of energy, for example, the customer might reduce future electricity usage by buying a more efficient appliance when an old appliance needs to be replaced.
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> With time-differentiated rates, some activities (perhaps hot water heating) could be shifted, at least in part, to lower cost periods. Similarly, a utility customer could decide to move to a smaller or better insulated facility. Even greater opportunities for such responses are likely to exist in some portions of the commercial and industrial sectors (where companies have flexibility to alter their usage patterns). For example, a paper mill might grind pulp wood at low off-peak rates into a storage silo, and thereby still be able to operate the rest of the facility continuously, as required by technological considerations.

> Utility rate design has a role to play in guiding these—and many other—consumption decisions on an efficient path. These issues are important given that:
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> Customers benefit from generation and transmission (reduced losses and congestion) cost savings when load is shifted to off-peak periods. Accurately reflecting the realities of energy costs in pricing can help to reduce the overall cost of generating and delivering electricity to serve customers.
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> Reduced usage can help to ease pressure on the network at peak times and, at times of extreme demand, this could reduce or prevent network stresses and involuntary customer interruptions. This benefits utility customers and society generally.
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> Rate structures that provide price signals to encourage load-shifting improve the utilization of the electric system. Customers who shift their loads should save money for doing so.
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> Reducing the internal cross-subsidies inherent in prices that are highly averaged over broad periods would be more equitable as well as more efficient. This is consistent with the principle that consumers of electricity should pay for the costs that they cause.
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> More efficient pricing can help to moderate price movements in wholesale markets by providing a price response that leads to reduced usage during system peak periods. If system peaks can be reduced, the need for new generation resources (whether supply-side or demand-side) can be reduced as well. Efficient pricing could help the development of the electricity marketplace by reducing hard to plan for, or politically problematic, price volatility.[5]

Additional important benefits associated with providing consumers with better price signals include: more efficient use of generation assets and reduced cost of utility service over time.[6]

Success of these programs should be measured by the overall level of competition experienced by Illinois consumers.

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[5] Edison Electric Institute, *Responding to EPACT 2005: Looking at Smart Meters for Electricity, Time-Based Rate Structures, and Net Metering,* May 2006, at 3-4.

[6] *Id*. at 13-15.

1. What role should the various stakeholders take in educating consumers? What should that level of effort be?

a. Commission
b. Utility companies
c. State of Illinois
d. CUB and other consumer interest groups
e. Others

Answer

It is in the best interest of all industry participants to help consumers better understand the benefits of competitive electric markets and the upcoming changes to the Illinois retail electric market. Indeed, in order for the competitive market to function, RESs are constantly educating customers. All Illinois retail electric market participants should take an active and interested role in educating consumers about energy efficiency and customer choice.

The Commission, working with other stakeholders, should supervise the development of messages on energy efficiency and energy choice that encourage consumers to use less energy, tell them *how* to use less energy, and inform consumers as to the myriad energy suppliers and products that competition will bring. Likewise, utility companies should educate their call center staff regarding energy efficiency tips and energy efficiency programs as well as energy choice and should be encouraged to provide such information to consumers. The Commission should consult with the Citizens Utility Board, other consumer interest groups, and RESs as it develops the energy and choice message that it wishes the utilities to convey to energy consumers.

2. The Commission is considering initiating a workshop process to provide interested parties with the opportunity to provide input on how educational material should be designed, what topics should be covered and how the materials should be disseminated. Is there value in such a workshop and what specific issues should be addressed? Please explain.

Answer

A workshop process would be an excellent way for stakeholders to come together and provide input on educational material. It is in the best interest of all industry participants to help consumers better understand the benefits of competitive electric markets and the upcoming changes to the Illinois retail electric market. Indeed, in order for the competitive market to function, consumers need to be provided with sufficient and reliable information so that they are able to make informed selections of products and services. Such was the intent of the General Assembly in directing the Commission to implement and maintain a consumer education program. (*See* 220 ILCS 5/16-117.)

Further, all industry participants should be able to participate in the development of ComEd and Ameren's post-transition customer education plans and materials. It is important that the Commission, customers, and RESs clearly understand the new default service rates and tariffs, and that customers understand their ability to choose to take

electric supply from RESs and the myriad products and services that could be available to them as competition develops further in Illinois. Any such workshop process should begin with ComEd and Ameren providing all industry participants with any information that has already been provided to customers regarding the upcoming Post 2006 changes. The sooner ComEd and Ameren, together with the Commission, RESs and consumer groups can begin these educational efforts, the better the Commission and other industry participants can help disseminate the information throughout the State.

The Coalition believes education about changes in the electricity market and its impacts on consumers is essential. Ensuring consumers are more aware, and have more notice of major trends and developments in development of retail and wholesale markets will assist customers in responding to changing prices. Education strategies and campaigns should familiarize customers with the wholesale and retail energy markets. It is critical that customers understand the link between wholesale and retail market. General information on prevailing market conditions would help acclimate consumers to these issues.[7]

In considering potential topics on which consumers should be educated, the Coalition recognizes the critical importance of providing consumers with a detailed explanation of the potential impact of market changes on customer's bills. However, care should be taken not to "predict" prices or market developments. Instead, the Coalition recommends the communication focus on changing market conditions and price variability. The Coalition recommends any such education fairly represent all aspects of the market, including the competitive retail sector. General information should be made available as soon as possible and conveyed repeatedly. As customers become increasingly accustomed to analyzing and managing energy costs, the focus should be more on maintaining transparency in the utility rate structure, and ensuring the customers can "see" market prices.

Key issues to be addressed in such a workshop include:

- Timing of education messages.
- Content of education messages.
- Language (e.g. English, Spanish, other languages)
- Media to be used (paid, PSA, newspaper, radio, direct mail, billboards, other)
- Frequency
- Location/prominence of communication on consumer bills
- Bill format

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[7] The Commission should be informed by a similar process that was initiated by the Pennsylvania Public Utility Commission ("PPUC") on May 19, 2006, whereby it issued an Investigation Order into Policies to Mitigate Potential Electricity Price Increases. (*See* PA. Pub. Util. Comm'n, *In the Matter of the Pennsylvania Public Utility Commission Investigation into Policies to Mitigate Potential Electricity Price Increases*, (PPUC Docket No. M-00061957) (May 19, 2006 Order).

- How both the price to compare and any energy efficiency messaging appear on bills
- Bill inserts
- Supplier access to utility company bills for purposes of promoting energy efficiency and energy choice
- How to promote budget billing
- Special communications for low income customers

3. What short-term education efforts are being planned in response to the ComEd rate stabilization docket (06-0411) and the Ameren securitization (06-0448) docket?

Answer

Given the ongoing nature of both of these dockets, and the uncertainty surrounding what such plans might ultimately look like, the Coalition has not focused on education efforts associated with the plans filed by ComEd and Ameren. The Coalition observes that there already has been a significant amount of information distributed regarding ComEd's rate mitigation proposal. The Coalition would anticipate that if ComEd's plan were adopted, advertising associated with the plan would comply with the Consumer Fraud and Deceptive Business Practices Act and clearly and conspicuously disclose all carrying costs associated with the plan.

4. Who should take the lead role in promoting the education effort? Please explain.

Answer

Please see answer to Question # 2 above.

6. What programs have been or are being implemented in other states to mitigate rising energy costs?

Answer

Energy choice programs have helped customers to mitigate rising energy costs. The bottom line is that a vibrant competitive market offers, by far, more and better options over time for customers to control their energy costs. Ernst & Young found a statistically significant correlation between increasing competition and lowering energy prices. The analysis was performed on electric and gas prices for commercial and industrial customers in Europe and concluded that The price of electricity falls by approximately 0.044/kwh for every unit increase in the competition indicator.[8]

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[8] Ernst and Young, Dept. of Trade and Industry, *Research Project on "The Case for Liberalisation"* Final Report at 2 (January 10, 2006).

Likewise, choice programs in New York and Ohio, for instance have been very successful in helping to mitigate increasing energy prices. In other jurisdictions, various consumers have benefited from selecting among a variety of competitive options to help meet their energy efficiency needs. In Texas, the introduction of competitive choices would have saved the average customer who selected the lowest competitive offer annually over the four year period in which deregulation has been in existence approximately $1440.

Interestingly, in Ohio natural gas offers have been combined with energy efficient setback thermostats, thus offering consumers an additional way to save on their energy use. And in Texas, Direct Energy offers a price plan that bundles the cost of energy-related services (specifically, twice yearly maintenance on energy related cooling and heating equipment) into one stable per kilowatt-hour electricity rate.

Budget billing options for customers can also help to smooth the impact of rising energy prices. No matter whether a consumer selects service from the utility company or from a competitive supplier, budget billing should remain an option.

8. How well can residential customers get information on their power use in a timeframe in which they can change their behavior? How can this be improved?

Answer

Generally speaking, Illinois residential consumers do not have the information that they need regarding their power use to adjust their consumption appropriately. However, more market-reflective pricing is an excellent way to get them that kind of information.

In New York, for instance, monthly electric prices are communicated to the residential and small commercial customer groups through a variety of channels, including: public filings at the New York Public Service Commission, a privately-sponsored website[9] and frequently coverage by local media services. Further, the vibrant retail natural gas market in New York also serves to communicate prices to customers, through several different supplier offers (as many as fourteen in some utility service territories) accompanied by active marketing. Ultimately, all of these elements, working together, constitute an effective example of how to communicate price changes to consumers.

9 *Available at*: http://www.energyguide.com/finder/NYFinder.asp?referrerid=209&sid=481

Low-income Consumer Assistance

1. What impact will higher electricity prices have on various income groups?
a. What will the overall impact be on households? Small businesses?

Answer
We live in a period of unprecedented changes in the consumption and price for electricity. Consumers deal with rising prices at the gas pump on a daily basis. There is no question that price increases of commodities like gasoline and electricity disproportionately affect low income customers. However, when customers receive real price signals, they have an opportunity to adjust their usage patterns. When real price signals do not reach consumers, they simply will not change their habits. It is in an environment of real price signals that consumers will see competitors vie for their business. It is quite possible, for instance, to shop around and find a difference in the price of gasoline of up to 10% or more, with a little looking.

Competitors can offer consumers the tools that they need to deal with a rising price environment, such as contracts that reduce in price over their term, or fixed price arrangements, or even products that are environmentally friendly. Ultimately, the best way to alleviate the impact of higher electricity prices on consumers, be they residential or commercial, is to provide them with meaningful choices to manage their energy costs.

Longer-term solutions

In February 2006 the U.S. Department of Energy released a report entitled "Demand Response in Electricity Markets and Recommendations for Achieving Them." See, http://www.electricity.doe.gov/documents/congress_1252d.pdf.
The study found that by more closely aligning the retail price of electricity with its cost of production as it varies over time, customers will be able to assign a value to their consumption of electricity and make a better determination of when to use it. That is, flat rate electricity prices prevent consumers from knowing the true cost of their choice of how much power to use. The demand response enabled by this knowledge produces a number of benefits, including lower consumer bills and lower wholesale market prices, reduced need for new generation and transmission capacity and reduced stress on existing infrastructure.

Comment

This proposition is entirely correct and should form the basis for the Commission's approach to demand response, energy efficiency options and default service pricing. Indeed, the Government Accountability Office Stated in a 2005 Report that:

> As we have previously reported, for competitive wholesale electricity markets to provide the full benefits expected of them, it is essential that they be connected to the retail markets, where most electricity is sold and consumed. Otherwise, hybrid electricity markets—wholesale prices set by competition and retail prices set

by regulation—will be difficult to manage because consumers at the retail level can unknowingly drive up wholesale prices during periods when electricity supplies are limited. This occurs when consumers do not see prices at the retail level that accurately reflect the higher wholesale market prices. Seeing only these lower electricity prices, consumers use larger quantities of electricity than they would if they saw higher prices, which raises costs and can risk reliability.

We have noted that, in this environment (consumers seeing low retail prices during periods of high wholesale prices) consumers have little incentive to reduce their consumption during periods when prices are high or reliability is at risk. The appeal of seeming to insulate retail consumers from wholesale market fluctuations may be compelling, but most experts agree that the lack of significant demand response can actually lead to higher and more volatile prices.[10]

Consumer Education

1. What is the best way to convey to consumers that they have the ability to control their electricity bill, for example by reducing peak load consumption?

Answer

The best way to achieve this objective is a combined education effort that takes advantage of all the media identified in the response to Question # 3 under the topic "Short-Term Solutions." This effort must involve the Commission, consumer advocates, utilities and competitive suppliers of energy. The key is consistent, frequent and positive messaging about how consumers can use very broad and easy to understand concepts around energy usage (i.e., using power in the middle of a hot summer day costs more than using power at midnight on a pleasant fall evening).

b. Should financial incentives be given to customers to reduce their peak load consumption?

Answer

Customers absolutely should receive financial incentives for reducing their peak load consumption, and the greatest incentive is a lower electric bill. Consumers who conserve more in the summer months should receive the full benefit of their energy efficiency

[10] U.S. Gov't Accountability Office, Report to the Chairman, Subcommittee on Energy and Resources, *Electricity Restructuring: Key Challenges Remain*, November 2005 at 15-16.

efforts. However, the only way for this benefit to accrue to consumers is for them to receive true market price signals.

a. How should the information about hourly prices be conveyed to consumers? Who should be responsible for providing that information? Can this information be easily provided? Why or why not?

Answer
Ideally, information about energy prices should be conveyed through customers' meters. This is not a proposition that will work over the short-term since installation of these technologies will take time. But rather, it is a solution that should be implemented for the mid-to-long-term.

Demand Response

1. What is the best way to incent customers to reduce peak-load consumption? Please explain.

Answer
The best way to achieve this objective is by sending an accurate, market based retail price signal. Absent a financial incentive to use energy in an efficient manner, there will be little reason to make changes to consumers' lifestyles.

2. There are a number of mechanisms available to help customers reduce their demand for electricity. Please comment on the economic, operational and reliability costs and benefits associated with the following:

a. Rate design

Answer
To the extent that an incumbent utility does not address all retail entry barriers, a challenge to competition will persist in 2007 and beyond, and could hamper competitive market processes. Thus, continuing attention to the nature of default utility service is crucial, because poorly-structured default service is one of the most damaging entry barriers facing potential competitors. Furthermore, default service should continue to be reevaluated as other market design policy decisions are made. Rate design is the foundation to make a market work. Absent a rate design that allows real price signals to reach consumers through the default rate, inefficiencies arise, peak demand rises, costs rise, the need for more power plants rises and environmental concerns are exacerbated. Rate design is the fundamental building block to a sound energy efficiency policy.

The ancillary benefit of such a default rate is that competition will flourish and multiple options, not previously available to consumers, will appear to help consumers manage their energy costs.

b. Information and metering

Answer
With rate design as the foundation for a functioning market, information is one of the pillars of an efficient energy market. Without timely, accurate information, consumers cannot conform their behavior to the price signal provided by an appropriate rate design. Accordingly, the ideal model is an energy price derived from smart metering capable of providing that information to consumers. Absent that system, the appropriate default pricing methodology is a variable market price. In such a regime, consumers should have access to pricing information sufficiently in advance (i.e., 10 days) to conform their usage patterns to the variable price signal.

c. Demand management

Answer
Demand management should be a natural byproduct of both an appropriate rate design and timely access to relevant price signals.

The Coalition also encourages further development of the PJM demand response programs, by PJM and MISO, as well as through ComEd and Ameren, that are already in place for some customers. Additional Commission actions to encourage a more timely information flow to the customers should be coordinated with the RTOs and the utilities so as to ensure they provide proper incentives and effective results.

d. Distributed generation

Answer
Distributed generation is an excellent to tool to help consumers (in particular large consumers) manage through peak periods. States such as Connecticut have realized the value of distributed generation and have provided incentives to industrial customers to construct distributed generation facilities for use during peak periods. Several projects under this regime have been submitted to and approved by the Connecticut Department of Utility Control.

2. What role can technology play in enabling residential demand response?

Answer
Technology, in terms of advanced metering equipment, can help enable access to accurate and timely price signals, as discussed above.

Energy Efficiency/Conservation Initiatives

5. Should utility companies be actively promoting energy conservation programs? Why or why not?

a. Who should be the recipients of those programs?

b. How should the costs associated with those programs be recovered?

Answer:

Utility companies should work to find ways to help consumers become more energy efficient. The reality, however, is that utility companies have a distinct disincentive to encourage energy efficiency in that their distribution revenues are dependent, to a large extent, on a per kWh charge.

This is one reason why decoupling of distribution revenues from customer usage has become a popular topic among energy experts today.[11] In addition to the notion of decoupling, one must consider the potential that the incumbent utility might exit the merchant function.[12] Ultimately, there should be complete indifference on the part of the utility in terms of customer usage in order to achieve maximum benefits from appropriately structured default rates and energy efficiency programs. One way to achieve that indifference may be by removing the responsibility for commodity procurement function from the utility entirely.[13]

Policymakers ultimately must weigh many considerations that may go beyond the purview of this initiative in determining who should receive the benefits of energy efficiency programs. However, recognizing that limitation, the Commission should work to ensure that all consumers benefit from energy-efficiency programs. Ultimately, all customer segments must receive accurate price signals if generation efficiency, energy efficiency and downward price pressure are to be maximized.

In Illinois, it is possible to declare a customer class "competitive." (*See* 220 ILCS 5/16-113.) Additional competitive declarations for large and mid-sized customers should be actively pursued.

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[11] *See, e.g.*, The National Regulatory Research Institute, *Revenue Decoupling for Natural Gas Utilities*, April 2006; PUB. UTIL. FORTNIGHTLY, Janine Migden-Ostrander, *A Consumer Advocate's Perspective: Revenue Decoupling and Energy Efficiency*, June 2006; ENERGY BIZ, Pub. Util. Comm'n of Ohio Commissioner Donald L. Mason, *Lead, Follow or Get out of the Way*, May-June 2006.

[12] This notion can be applied with equal force to natural gas utilities and is receiving more attention today than ever before.

[13] This is not to say that provider of last resort functions cannot reside with the utility, but rather that the procurement of default service by the utility should ultimately come to an end.

At the same time, the Commission could determine that it is appropriate for customers that do not receive more market-reflective pricing to be placed on a default rate that more accurately reflects the underlying costs of the power being consumed (say for example, pricing that changes on a monthly or quarterly basis), with the ability for the those consumers to opt-in affirmatively to any alternative rate plans offered by either the utility company or to select a competitive supplier. In this way, all customer classes could immediately experience the benefits of real price signals and greater energy efficiency, while at the same time a retail market could begin to develop.

Over the long term, the path described above provides the best transition from traditional regulation to a competitive environment for the people of the state of Illinois.

CONCLUSION

The Coalition applauds the efforts of the Commission to thoughtfully consider the steps needed to complete the transition to competitive markets in Illinois. As the Commission has clearly recognized, competitive markets provide a host of benefits to consumers and are the best way to manage rising energy costs. Illinois already has made great strides in bringing the benefits of competition to its citizens. With this initiative, and the Commission's ongoing Choice Initiative workshop process, the Coalition believes that the Commission now has before it a number of opportunities by which it can assist consumers cope with higher bills in the short-term and create a customer-friendly competitive market in the long-run. All the members of the Coalition look forward to assisting the Commission in its review of these opportunities and in its efforts to bring retail electric choice to all consumers.